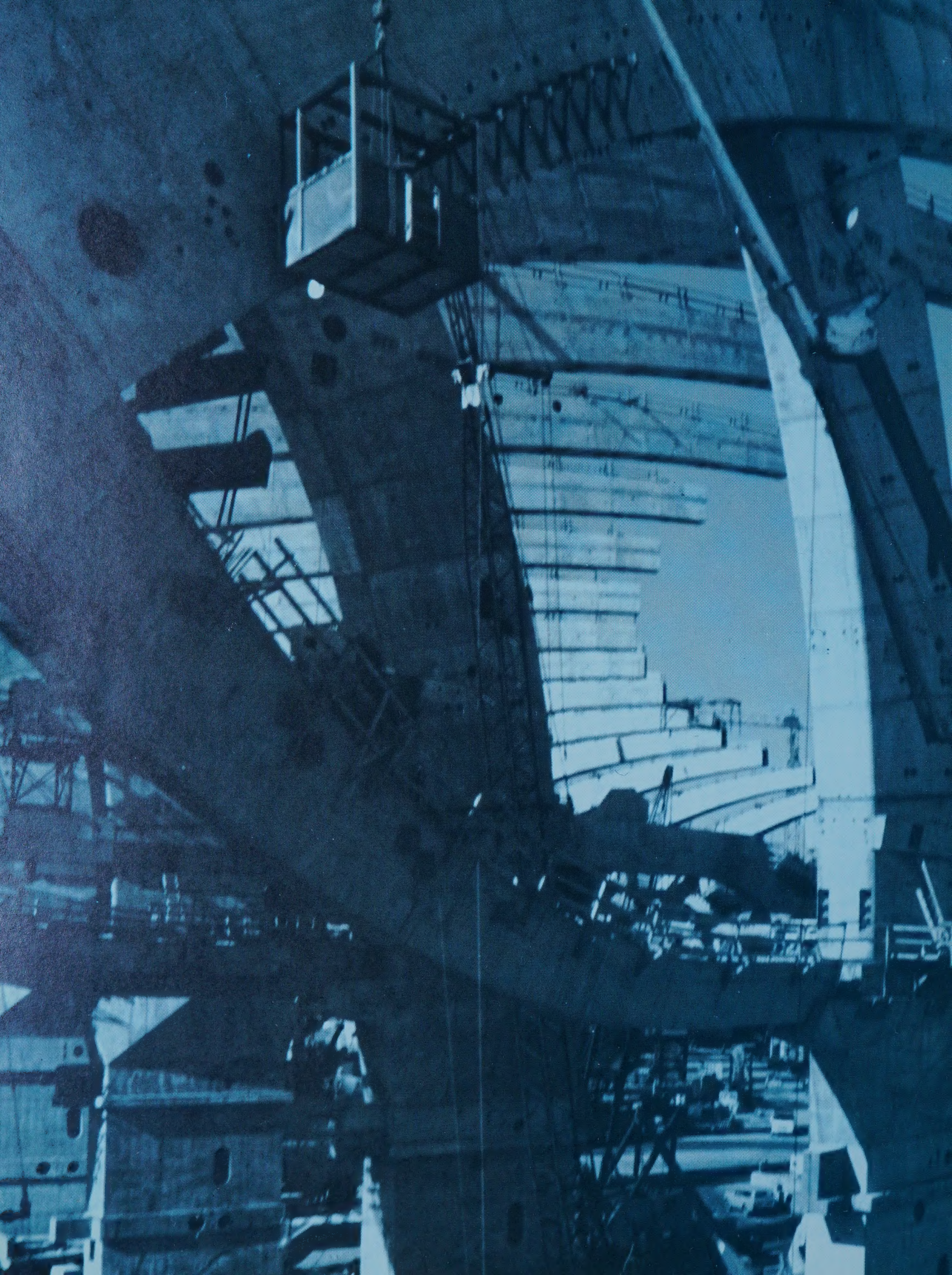


AR45

THE
RESOURCE
SERVICE
GROUP
LTD.

FOURTH
ANNUAL
REPORT
1975





A high-angle, blue-tinted photograph of a massive construction project. A large, curved concrete structure is being hoisted into place by several tall cranes. The scene is filled with industrial equipment, scaffolding, and other construction elements, creating a complex and busy environment. The text is overlaid on the upper right portion of the image.

RSG IS A NATIONAL, DIVERSIFIED BUSINESS, PROVIDING
BASIC SERVICES PRIMARILY TO RESOURCE INDUSTRY USERS.
GROUP INTERESTS ARE CONCENTRATED IN THE SALE AND
MAINTENANCE OF HEAVY EQUIPMENT, OIL AND GAS WELLHEAD
SERVICES, AND REMOTE AREA TRANSPORTATION.

THE RESOURCE SERVICE GROUP LTD.

OFFICERS AND DIRECTORS

JOHN M. S. LECKY

Chairman and Director

W. MICHAEL M. HONEY

President and Director

STEPHEN M. KRASNOW

Vice-President and Treasurer

MARK J. FELDMAN

Secretary and Director

GEORGE E. HIRST

Director

MARCEL LACROIX

Director

GERALD A. B. MCGAVIN

Director

J. STUART SPALDING

Director

BERNARD R. TELLIER

Director

Inside Cover

Mussens' cranes were critical to the construction of Montreal's stadium for the 1976 Olympics.

HIGHLIGHTS

	1975	1974	1973	1972
Revenue (000's)	\$118,251	\$101,464	\$40,783	\$ 5,985
Cash generated from operations (000's)	\$ 4,875	\$ 3,317	\$ 2,462	\$ 216
Net Operating Income*	\$ 2,530	\$ 1,906	\$ 1,078	\$ 147
Earnings per share†				
—before extraordinary items	\$ 0.59	\$ 0.48	\$ 0.35	\$ 0.09
—after extraordinary items	\$ 0.59	\$ 0.50	\$ 0.35	\$ 0.09
Dividends per share	\$ 0.025	\$ 0.025	—	—
Working Capital (000's)	\$ 9,637	\$ 9,494	\$ 6,828	\$ 653
Working Capital per share	\$ 2.25	\$ 2.22	\$ 1.91	\$ 0.39
Shareholders' Equity (000's)	\$ 19,936	\$ 15,537	\$11,092	\$ 3,239
Equity per share	\$ 4.66	\$ 3.63	\$ 3.10	\$ 1.94
Long Term Debt to Equity ratio	.21/1.00	.35/1.00	.52/1.00	.04/1.00
Total Assets (000's)	\$ 93,584	\$ 72,090	\$58,275	\$14,332

*Including share in earnings of associated company of \$347,000 in 1975.

†Based on 4.3 million shares outstanding versus 4.0 million average shares outstanding during 1974.

Si vous préférez recevoir ce rapport
en français, veuillez vous adresser au
Secrétaire, Suite 405, 4 Place Ville
Marie, Montréal, Québec H3B 2E7

REPORT OF THE DIRECTORS

Having entered the year on a bright note, emphasis soon shifted to maintaining corporate momentum in the deteriorating environment of rising prices and falling confidence. In the aggregate, RSG did better than might have been expected in a zero growth year for G.N.P. In 1976 your company should be able to build on the current base if indeed we are to experience moderate real growth and declining price inflation in the Canadian economy.

PROFIT & LOSS ACCOUNT

Pre tax profits for the year rose to \$4.4 million from \$4.0 million in 1974, a gain of 10% which compares to a decline of 3% in pre tax Canadian corporate profits in current dollars. On total shares outstanding of 4.27 million up from 3.96 million shares in the corresponding 1974 weighted average share base, profit from operations amounted to 51¢ versus 48¢. Adjusted to reflect the company's 30% equity in the earnings of Okanagan Helicopters Ltd. in both years, final net profit per share including extraordinary items was 59¢ as compared to 53¢ a year earlier. Cash flow increased 47% to \$4.9 million from \$3.3 million. The Federal Government corporate surtax imposed May 1, 1974 lowered 1975 earnings by 1¢ per share.

SHAREHOLDERS' EQUITY

Shareholders' equity again advanced significantly to \$19.9 million from \$15.5 million on December 31, 1974. Of the \$4.4 million gain, \$2.0 million is appraisal surplus contributed through re-evaluation of land and buildings. This is a desirable method of showing in current dollars the real equity beneath current liabilities, an accepted industry practice in contending with inflation. The corresponding rise in equity per share has been to \$4.66 from \$3.63 at the end of last year. Analysis of 1975 results shows that we earned 14% on average shareholders' equity compared to 16% earned in 1974. This points up the reality experienced by most Canadian businesses whose net returns to shareholders have actually decreased in relation to inflated costs of plant and equipment. To the extent that the greater portion of Group assets are current rather than fixed, a 12% to 18% return should be attainable in periods of normal demand and reduced inflationary expectations.

BALANCE SHEET

The fourth quarter of 1975 was characterized by a large inventory buildup, invoicing of which was delayed until the first quarter of 1976. The task of financing higher inventories was assisted by generally more favourable credit conditions, particularly in the U.S. and by a lower rate of increase in the prices paid for equipment and parts. Inventory levels should not show any real growth in 1976 due to a combination of large fleet deliveries in the first quarter, improved factory availability and continued efforts to improve turnover. This year it is quite possible that rental conversions to sales will be higher since the rental fleet has experienced parallel growth to new inventories. Machine inventories in both categories are higher than desired due to aggressive stocking and bidding on competitive tenders following a period of delayed deliveries from major suppliers.

Working capital improved to \$9.6 million while current bank loans rose to \$19.4 million and fixed indebtedness again declined. To provide for more orderly debt funding

in subsidiaries, management is negotiating long term debenture financing under a trust indenture to be placed privately with leading institutions. The proceeds will be used to retire bank indebtedness, inventory obligations, and to augment working capital.

CORPORATE DEVELOPMENTS

In April the construction machinery division of Ontario Equipment Ltd. was sold at book value to The General Supply Company Ltd. A number of management and staff accompanied the transfer of these assets. The climbing crane fleet was subsequently sold to Mussens Equipment Ltd. where it will be operated as a separate division on a smaller scale. These changes are consistent with an earlier expressed intention to expand Mussens' traditional business rather than to pursue diversity in the Ontario market.

In May construction began at the Mussens' Equipment Ltd. LG2 branch site which will serve customers in the James Bay Territory. The installation, which will cost \$500,000, was largely complete by year end.

In July RSG exercised 14,900 warrants to purchase common shares in Okanagan Helicopters Ltd. at \$5.50 per share. The company's investment in Okanagan is the largest single shareholding which, at 307,339 shares is equal to just over 30% of that company's issued and outstanding share capital. These holdings which are significant to the structure of both companies, have for some years been carried as a long term investment, and included in shareholders' equity on the RSG balance sheet. In order to reflect accurately the return on RSG shareholders' investment, the appropriate share in the earnings of Okanagan has for the first time been reported on the profit and loss statement.

In September Consolidated Bear Industries began construction of a 13,000 square foot shop and office premises on 3.4 acres of land owned freehold outside Edmonton.

Total capital expenditures within The Resource Service Group amounted to \$1.6 million during 1975 and are budgeted at \$1.5 million in 1976.

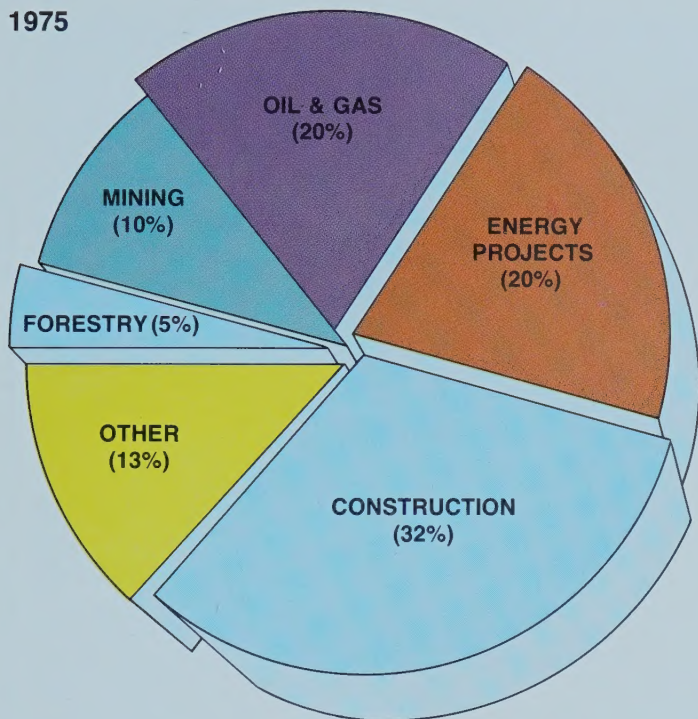
RSG CHARACTER AND OUTLOOK

The company has now entered its fifth year as a publicly held reporting entity, and it is to be hoped that the progress which characterized the formative years can be continued. For a time in 1975, this looked doubtful when the Federal forecast of 3% to 4% real growth in Mr. Turner's last budget disintegrated, and confidence necessary to continued investment, began to slide. The company began the year briskly, ran out of earnings progress in the third quarter, and then recovered in the fourth.

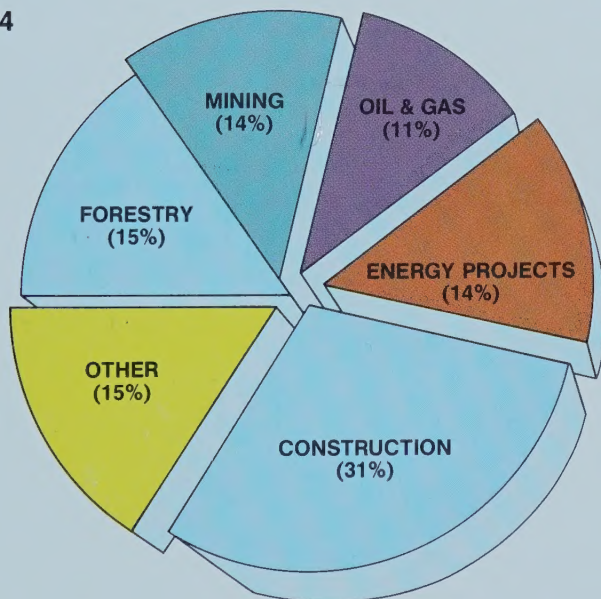
The outlook for the current year should be for continued progress based on the two reasons given last year, namely real growth in the Canadian economy, and the trading momentum of RSG companies who are not newcomers to their fields. The complicating factor is of course the impact of the Federal Guidelines on the economic recovery now underway, and the emphasis to be given by the A.I.B., and the Administrator. This company as employer of close to 1,000 people falls within the

EARNINGS BY RESOURCE SECTOR

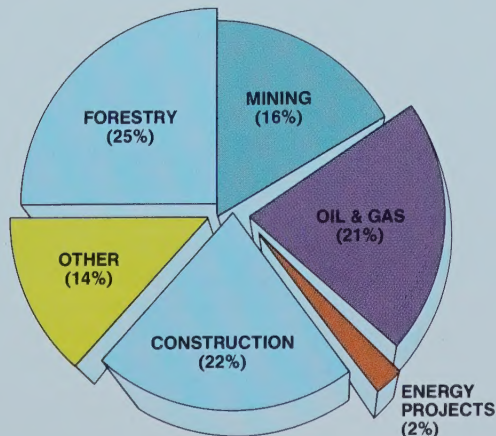
1975



1974



1973



Guidelines, and therefore can only raise earnings on increased turnover, in a proportion comparable to the experience of 1974.

This is quite possible without offending the Guidelines, and every effort is being made in this direction. What remains to be seen is whether demand for equipment, parts and services provided by RSG companies holds up, and there are some reasons for optimism.

Perhaps the greatest test will be in our ability to control costs which accelerated in 1975, and have entered this year with more strength than revenues. Labour settlements in both Quebec and B.C. companies will require us to find more business to offset higher wage costs, since not all of these increases can be passed on to customers.

A cursory look at the accompanying pie charts shows the declining contributions made to RSG earnings through our involvement with the mining and forestry industries over the past three years. Recessive world market conditions and adversary government taxation pressures have abated somewhat, and we expect to increase our portion of business in these sectors. Conversely, construction has risen to over 30% and we expect this to decline as a percentage, although the contribution should be maintained as an absolute figure.

Similarly, the controversy surrounding royalties and incentives to the oil and gas producers, which damaged our business in 1974, has in large part been overcome. We have remained heavily committed to the oil and gas industry, believing that the critical task of searching for additional reserves will continue both here and abroad.

Our business with energy related projects is by definition more intermittent, but should again in 1976 make a significant contribution judging by appropriations for plant additions by both Hydro authorities and private industry.

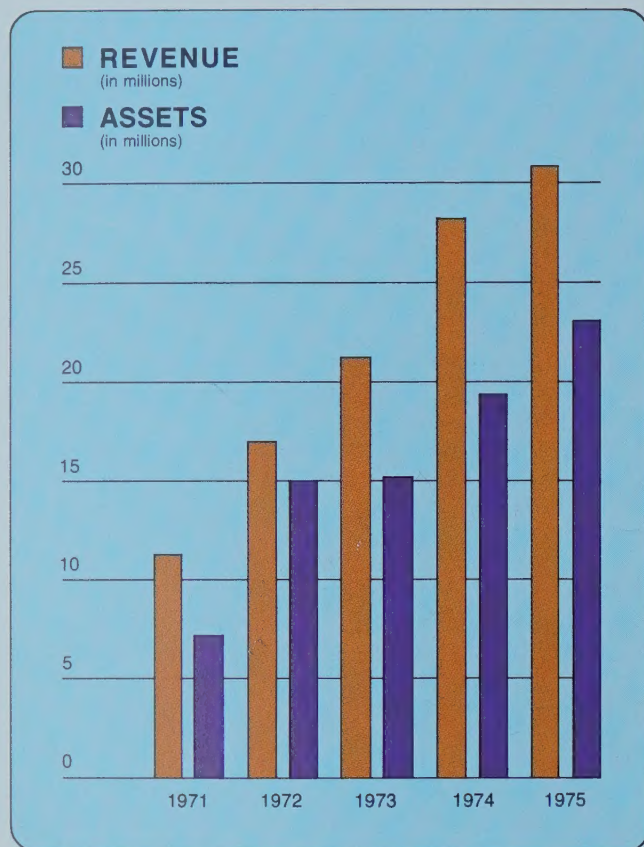
Although it has been made clear that RSG cannot prosper in the face of disruption in several resource industries, the point made by the pie charts is that our earnings base can expand while contributions from some sectors are in decline. This premise was severely challenged in our British Columbia operations which suffered through the most widespread work stoppages to affect the region's industries in recent memory. A reversal evident in both B.C.'s political and economic outlook should allow us a better performance in the current year. Benefiting from such recovery, RSG should be able to maintain its rate of progress for as long as there is real growth in Canadian resource production.

We have been fortunate in attracting and retaining unusually talented people in the RSG companies. Their interest and enthusiasm in the objectives of each new year contribute most of the confidence on which our forecasts are based. In thanking them on behalf of the Directors, I would add that it is a pleasure to work together.

John M. S. Lecky
JOHN M. S. LECKY
Chairman

February 27, 1976

EQUIPMENT/ALBERTA



For the past few years Alberta's real growth has outstripped the Canadian average, and 1976 promises more of the same. A record oil and gas exploration season is currently underway, a number of processing plants are under construction, and Alberta Gas Ethylene Co. has announced its entry into world scale petrochemical manufacture with a 1.2 billion lb. plant at Joffre. Work on the Syncrude site is reaching a peak, and housing starts have responded to both Provincial and Federal stimulation. The Provincial Government has curbed spending to an 11% increase in 1976 versus 15% last year, and has promised a Coal Policy allowing orderly development of a number of deposits within Provincial boundaries.

Against this background of activity, the Gorman's Coneco companies recorded another healthy year in both revenues and profits, which benefited from expanded facilities able to accept larger volumes. Lower than expected contributions were experienced due to slowdowns at the Syncrude site earlier in the year and by little resurgence in the lumber industry as the year progressed.

Offsetting these developments, operations were positively affected by: a significant increase in the exploration and drilling programs of Alberta's oil industry; active road building and industrial plant construction programs; several major rural gas line installations along with well tie-ins; and a local housing boom which affected several market areas.

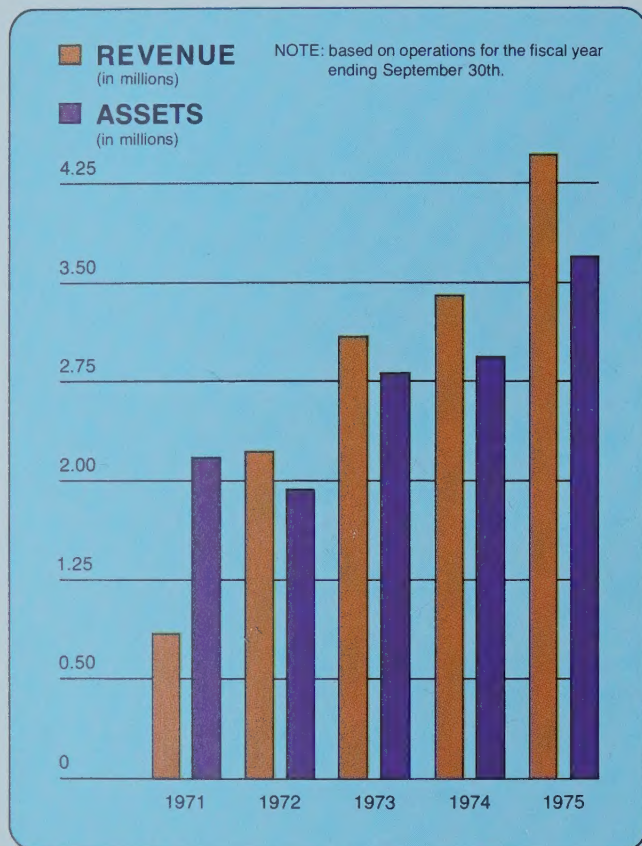
With the assistance of adequate and timely deliveries from major suppliers, Coneco should be able to build further on its presence in the heavy equipment market. The industrial machinery business is being broadened through Gorman's which has taken on new product lines aimed at materials handling for rapidly expanding local distribution businesses.

Additional marketing emphasis has been placed on serving the coal mines where major product lines are currently being introduced.

Opposite . . .
Coneco brought Clark Michigan to Cardinal River Coals Ltd.'s Luscar, Alberta operation.



OIL AND GAS/WELLHEAD SERVICE



For the year ended September 30, 1975 sales were at a record level. This was achieved even though the active drilling rig count in Canada decreased by approximately 12%. Sales and profits were increased due to an increase in efficiency, and Bear Tools obtaining a larger share of the available market.

Partly to diversify the company's exposure to a slower pace in Canadian exploration, opportunities to market the company's expertise were pursued elsewhere. Consolidated Bear Industries Ltd., through its subsidiary Bear Tools Co. Ltd., entered into a Joint Venture Agreement with Offshore Drilling Supplies Ltd., a company located in Aberdeen, Scotland, to provide fishing equipment on a rental basis to the North Sea and other areas in the overseas market. The company has also expanded through

the opening of a Facility Centre in Casper, Wyoming to provide fishing and rental service in the northern United States.

In Canada, CBI is currently constructing a 13,000 sq. ft. shop and office building on 3.4 acres in Edmonton. This facility, which will cost \$300,000, should be ready for occupancy by this April, and should allow increased manufacturing capacity and better service to the oil industry from all divisions. The building is being financed from cash internally generated, and at this time is not expected to require the company to incur term borrowing. This investment reflects the view that notwithstanding fluctuations likely to recur, serving the oil industry from Alberta will be viable business in the years to come.

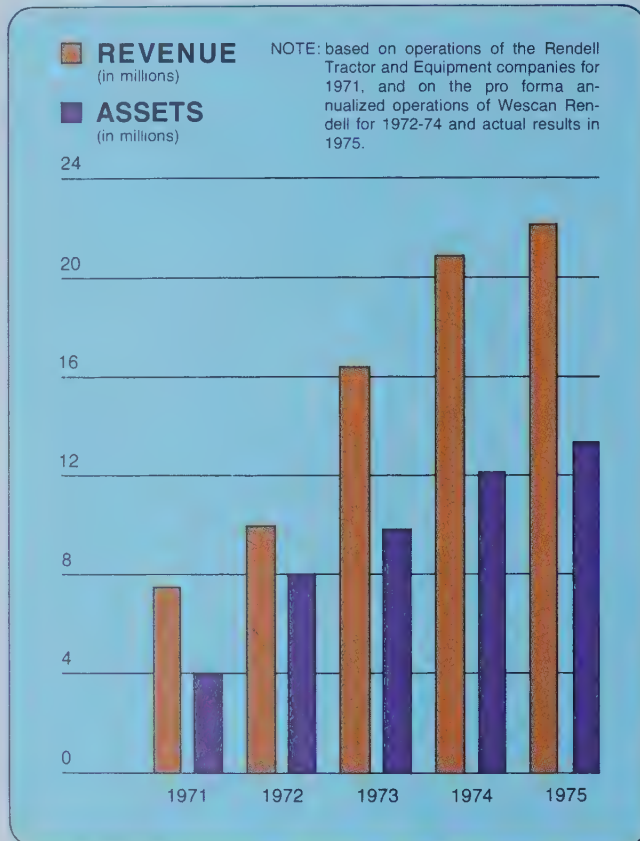
A gas unit was formed in the Viking area effective February 1, 1975 and the company interest in 18.5 sections of land was placed in the unit. The company participated in the drilling of two unit wells in order to increase gas deliverability. The company also participated in the drilling of 7 wells on acreage outside the unit area but still in the general Viking area. This drilling resulted in 5 gas wells and 2 dry holes. Efforts are being made to include the productive wells in the unit.

Net capital expenditures for the fiscal year ended September 30, 1975 amounted to \$602,000 up from \$340,000, the bulk of which was spent in the latter part of the year. Purchases included land for the Edmonton facility together with fishing and rental tools, part of which were required to open the service facility in Casper, Wyoming. A major disposal was the sale of the land in the Nisku Industrial Park. Total capital expenditures for 1976 are estimated at \$500,000. As virtually all the company's long term debt will be retired in 1976, the company entered the year in good financial condition.

Opposite . . .
Bear serviceman rigging up
perforating gear to bring another
Albertan oil well into production.



EQUIPMENT/BRITISH COLUMBIA



While the year was one of consolidation for the Wescan Rendell companies, a further increase in revenue of over 6% was recorded. This increase was achieved despite a lengthy shut-down of the forest industry due to labour unrest, and in the face of very depressed market conditions experienced by both of B.C.'s major industries, forestry and mining.

Even though competition was extremely keen in the remaining new equipment market, Wescan Rendell made further progress, increasing the company's share in all of its traditional new equipment market areas.

Maintenance of standards in after-sales service has resulted in increased demand, generating additional revenues, primarily in the mining sector, where, in

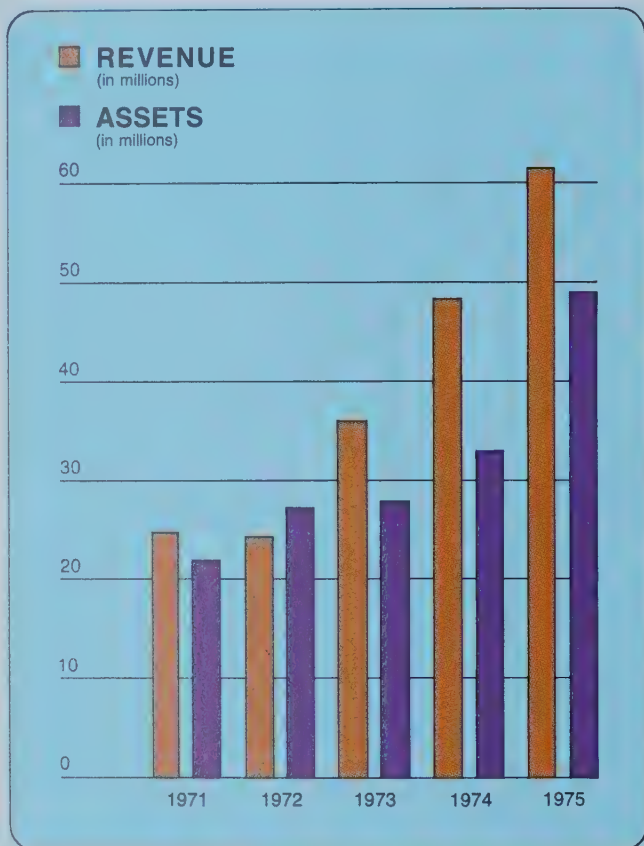
addition to traditional repair and maintenance service, the erection of large mine equipment was undertaken. Increased emphasis was also placed on after-sales service to the logging and construction sectors, with the establishment of service depots at Cranbrook and at Burns Lake, to provide better geographic coverage of the company's trading area.

The outlook for 1976 is for moderate improvement, in step with the recovery of the North American economy and gradually accelerating demand for forest products. The return of investor confidence in B.C.'s future is becoming evident and should provide a further stimulus to B.C.'s economic recovery. Proposed changes in the mining legislation, the issuing of new Provincial coal mining permits, and the proposed development of a new copper mine and copper smelter should provide strong demand for equipment and service. Wescan Rendell is favourably placed to participate in these developments, as well as in the expansion and overhaul of several mining truck fleets, during the coming year, and into 1977.

Opposite . . .
Strength to weight ratio won this job for Wescan Rendell's Fiat-Allis loaders at Burns Lake.



EQUIPMENT/QUEBEC



The momentum forecast for the MSN Companies, in last year's report, was borne out in 1975 results. Again, the largest portion of business came from the activities of Mussens Equipment Ltd. which entered the year with a record backlog, particularly for James Bay related work. An active year in the company's conventional market areas, supplemented by record activity in Hydro and Olympic construction, together with a good growth in service operations produced a higher volume contribution. The costs of doing business also rose however, and as the year progressed, costs accelerated against a background of increased product price competitiveness and repeatedly lower gross margin fleet sales.

The company has made a great effort to insure immediate machine availability for customers with

winter work and early startup planned for spring contract programs. These requirements have altered traditional practice and clearly increased risk-taking in an effort to maintain quality service on a larger scale.

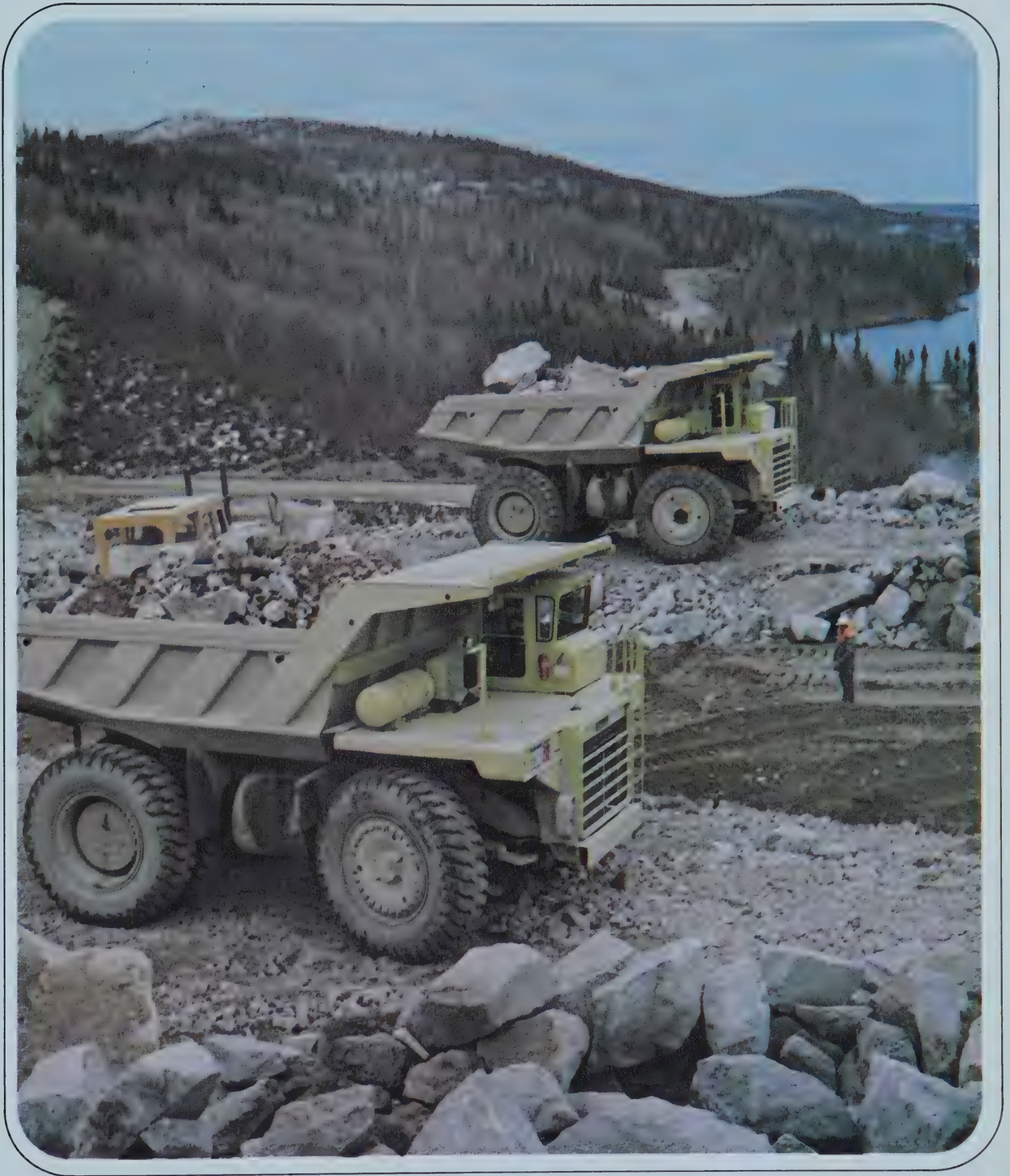
To this end, an additional investment of over \$500,000 has been made in the new Mussens branch at the LG2 site of the James Bay Project which has also led to a considerable investment in supporting parts inventories.

Rising machine sales experience over the past several years has been accompanied by increased investment in parts inventories. With a view to improving ability to manage these inventories, and to providing improved customer service, Mussens' data processing team have upgraded computer facilities and are in the process of converting parts operations to an "on line" mode.

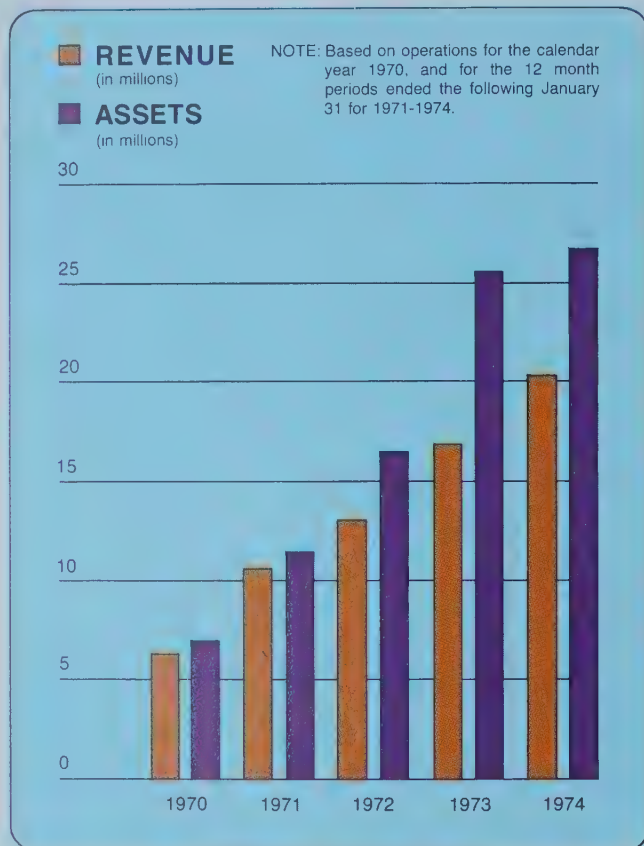
Just Equipment enjoyed a good year paced by a sales increase of 23% over the previous year reflecting a broadened product line which met with a good market reception.

Order backlogs for the MSN companies are currently at reasonable but not record levels, and at this stage activity levels forecast for both conventional and large project areas show some promise. In this circumstance, the continuing abilities of personnel at all levels are the critical factor in maintaining the satisfactory progress of recent years.

Opposite . . .
The big job at the LG2 damsite is performed by Euclid 85-ton trucks and Fiat-Allis' HD41 dozers supported by Mussens.



REMOTE AREA TRANSPORTATION/ OKANAGAN HELICOPTERS



Consolidating the results of Dominion Pegasus, which was acquired in February, the company reported first half revenues of \$16.3 million versus \$9.8 million a year earlier and pre tax profits of \$1.0 million, up 77%. In response to the effects of increased international business, a successful acquisition and a somewhat better domestic rate environment, Okanagan has moved toward a record year. This performance, although part of a trend, is particularly noteworthy during a period characterized by Canadian government resource taxation debates, and demonstrates the company's versatility in improving fleet utilization. Five years ago, 85% of revenues were derived from Western Canada compared to 26% in 1975. Pursued in earnest two years ago, foreign revenues now indicated at \$6 million are nearly equal to total revenues in 1970.

This year, the highlight of Canadian market activity revolved around construction programs in Eastern Canada where the expanded light helicopter fleet was at times extremely busy. The British Columbia, Northwest Territories and offshore East Coast markets were relatively inactive reflecting lower oil and gas exploration, while the major thrust of foreign contracts entered in Southeast Asia reflected high international exploration activity. About one fifth of total revenues are now being generated abroad, and management plans to increase this counter-weight to fluctuations in the domestic markets.

In December, the company negotiated a \$1.2 million increase in outstanding Series "A" debentures together with an extended sinking fund term. The additional funds were used partially to repay debt assumed in the Dominion Pegasus acquisition as well as adding \$650,000 to the working capital of the company.

The year ahead is likely to bring a shift in end use markets with a lower construction component, and a higher contribution from new oil and gas programs in Canada. Revenue growth at the recent rates is not sustainable particularly in the controlled environment which the country entered last October. One interesting feature of escalating wage rates in the 1970's has been the trend toward helicopter transportation to the job site for work forces in less and less remote project areas. Changes in the allocation of revenues from oil and gas price increases to encourage the producers suggest that Governments have recognized the need to balance taxation policies with the country's need for steady resource development. This equation is as critical to the helicopter industry as it is to many other Canadian service businesses. Somewhat ironically, Okanagan's reputation and success in international markets has allowed the company to stay healthy at home during this period of national introspection.

Opposite . . .
Okanagan's tower setting skills are legendary among hydro line builders across Canada.



THE RESOURCE SERVICE GROUP LTD.

and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

as at December 31, 1975

ASSETS	1975	1974
Current assets		
Cash	\$ 565,000	\$ 1,292,000
Accounts receivable	23,114,000	18,932,000
Inventories — note 2	34,759,000	24,518,000
Rental equipment	18,079,000	14,699,000
Prepaid expenses	139,000	134,000
Income taxes recoverable	1,200,000	95,000
	<u>77,856,000</u>	<u>59,670,000</u>
Instalment receivables	27,000	241,000
Investment in associated company — note 1	4,388,000	3,739,000
Fixed assets — note 3	9,837,000	7,033,000
Other assets	182,000	136,000
Excess of cost of subsidiaries over net book value of assets at date of acquisition	1,294,000	1,271,000
	<u><u>\$93,584,000</u></u>	<u><u>\$72,090,000</u></u>
LIABILITIES	1975	1974
Current liabilities		
Bank indebtedness — secured	\$19,394,000	\$11,830,000
Notes payable — secured	21,691,000	15,970,000
Accounts payable and accrued liabilities	21,048,000	17,344,000
Dividend payable	107,000	107,000
Long-term debt due within one year — note 4	1,228,000	1,665,000
Income taxes	629,000	717,000
Deferred income taxes	4,122,000	2,543,000
	<u>68,219,000</u>	<u>50,176,000</u>
Long-term debt — note 4	4,171,000	5,404,000
Deferred income taxes	649,000	476,000
Minority interest in subsidiary companies	609,000	497,000
SHAREHOLDERS' EQUITY		
Capital stock — note 5	12,422,000	12,422,000
Appraisal surplus — note 3	1,994,000	—
Retained earnings	5,520,000	3,115,000
	<u>19,936,000</u>	<u>15,537,000</u>
	<u><u>\$93,584,000</u></u>	<u><u>\$72,090,000</u></u>

On behalf of the Board:

John M. S. Lecky, *Director*

W. Michael M. Honey, *Director*

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

For the year ended
December 31, 1975

		1975	1974
Sales, rental and service income		\$117,241,000	\$100,728,000
Other income		1,010,000	736,000
		118,251,000	101,464,000
Expenses			
Operating and administration	\$112,349,000	\$ 96,140,000	
Depreciation	911,000	682,000	
Interest on long-term debt	622,000	663,000	97,485,000
Income before provision for income taxes		4,369,000	3,979,000
Provision for income taxes		2,173,000	1,999,000
		2,196,000	1,980,000
Share of earnings of associated company		430,000	—
Income including minority shareholders' interest		2,626,000	1,980,000
Minority shareholders' interest in net income of subsidiaries		96,000	74,000
Income for the year before extraordinary items		2,530,000	1,906,000
Extraordinary items — note 6		(18,000)	91,000
Net income for the year		2,512,000	1,997,000
Retained earnings — beginning of year		3,115,000	1,225,000
Dividends		(107,000)	(107,000)
Retained earnings — end of year		\$ 5,520,000	\$ 3,115,000
Earnings per share			
Operations		\$0.59	\$0.48
Extraordinary items		—	0.02
Total		\$0.59	\$0.50

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

For the year ended
December 31, 1975

		1975	1974
Source of Funds:			
Funds provided from operations			
Net income before deducting minority interest		\$ 2,626,000	\$ 1,980,000
Non cash items included in income			
Depreciation	\$ 911,000		
Other non cash items	106,000		
Share of earnings in associated company — net of dividends	(347,000)		
		670,000	721,000
		3,296,000	2,701,000
Issue of common shares		—	2,555,000
Proceeds from long-term borrowings		—	1,235,000
Other		166,000	153,000
Total		3,462,000	6,644,000
Application of Funds:			
Investment in subsidiary companies		31,000	175,000
Purchase of fixed assets		1,646,000	2,075,000
Repayment of long-term debt		1,233,000	1,621,000
Dividend		107,000	107,000
Investment in associated company		302,000	—
Total		3,319,000	3,978,000
Increase in working capital		143,000	2,666,000
Working capital — beginning of year		9,494,000	6,828,000
Working capital — end of year		\$ 9,637,000	\$ 9,494,000

THE RESOURCE SERVICE GROUP LTD.

and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1975

1. Summary of significant accounting policies

The Company follows generally accepted accounting principles in the preparation of its consolidated financial statements and their application is consistent with that of the preceding year.

The Company is incorporated under the laws of the Province of Alberta.

Basis of consolidation

The consolidated financial statements include the accounts of The Resource Service Group Ltd. and all subsidiary companies, with provision for the interests of minority shareholders. The Company has accounted for the acquisition of all subsidiary companies on a purchase basis and earnings have been included in the consolidated financial statements from the date of acquisition of control in each case.

The accounts of all subsidiary companies have been included in the consolidated accounts for the twelve months ended December 31 with the exception of Consolidated Bear Industries Ltd. which has a fiscal period ending on September 30 and has been included in the consolidated accounts for the twelve month period then ended.

The cost of the investments in subsidiary companies in excess of the net assets at the dates of acquisition is recorded as goodwill. It is the opinion of management that the goodwill is of continuing value and accordingly it is not intended to amortize this asset.

All material inter-company transactions have been eliminated.

Foreign exchange

Transactions in foreign currencies are translated at the exchange rates prevailing on transaction dates. Assets and liabilities are converted into Canadian dollars at the exchange rate prevailing at the balance sheet date.

Valuation of inventory and rental equipment

Equipment inventories and rental equipment, which are identified on a specific unit basis, are valued at the lower of cost or estimated realizable value. In the opinion of management any reductions to estimated realizable value provide for at least normal profit margins on realization.

Parts inventories are valued at suppliers' current list prices plus duty less estimated dealers' discounts, allowances for estimated price increases and obsolescence.

Work in progress is valued at cost of supplies, labour and applicable overhead.

Investment in Associated Company

From January 1, 1975 the investment in Okanagan Helicopters Ltd. has been accounted for on the equity method. Under this method the Company's share of net income is included in the consolidated statement of income rather than when realized through dividends. The investment is carried in the consolidated balance sheet at original cost plus the Company's share of earnings from January 1, 1975 less dividends received.

Fixed assets and depreciation

Fixed assets are stated at cost or appraised values. Depreciation is provided primarily on the straight line method at rates which are designed to amortize the carrying value of the assets over their estimated useful lives.

Income taxes

The Company follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements mainly represent taxes deferred in respect of capital cost allowance claimed in excess of depreciation charged in the accounts.

The deferred income taxes relating to rental equipment have been classified as a current liability matching the classification of the asset to which they relate, even though these taxes may not be paid in the next fiscal period.

Earnings per share

The earnings per share have been calculated on the weighted average of the number of shares issued and outstanding during the course of the year.

2. Inventories

	1975	1974
Equipment	\$21,937,000	\$14,217,000
Parts and supplies	11,602,000	9,104,000
Work in progress	1,220,000	1,197,000
	<u>\$34,759,000</u>	<u>\$24,518,000</u>

3. Fixed assets

	1975 Cost	1975 Appraisal Increment	1975 Total	1974
Buildings and leaseholds	\$ 4,031,000	\$ 704,000	\$ 4,735,000	\$ 3,617,000
Furniture, fixtures and equipment	5,183,000	—	5,183,000	4,320,000
Automobiles and trucks	1,381,000	—	1,381,000	1,268,000
	<u>10,595,000</u>	<u>704,000</u>	<u>11,299,000</u>	<u>9,205,000</u>
Accumulated depreciation	3,653,000	—	3,653,000	2,919,000
	<u>6,942,000</u>	<u>704,000</u>	<u>7,646,000</u>	<u>6,286,000</u>
Land	618,000	1,290,000	1,908,000	550,000
Oil and gas properties and development costs	283,000	—	283,000	197,000
	<u>\$ 7,843,000</u>	<u>\$ 1,994,000</u>	<u>\$ 9,837,000</u>	<u>\$ 7,033,000</u>

As at December 31, 1975 land and buildings of one subsidiary company were appraised at fair market value by J.C. Leslie Appraisals Ltd. Commencing January 1, 1976 depreciation will be based on the appraised value of the buildings.

4. Long-term debt

	1975	1974
Sinking fund debentures:		
6 ³ / ₄ % Series "B" due 1975	\$ —	\$ 160,000
6 ¹ / ₂ % Series "C" due 1984	1,062,000	1,125,000
6 ¹ / ₄ % Series "D" due 1985	725,000	755,000
7 ¹ / ₂ % Series "E" due 1987	575,000	600,000
	<u>2,362,000</u>	<u>2,640,000</u>
Mortgage payable:		
8 ¹ / ₂ % due 1977	61,000	68,000
3% in excess of prime due 1976	735,000	810,000
	<u>796,000</u>	<u>878,000</u>
Bank loan — 1-2% in excess of prime	<u>2,018,000</u>	<u>2,145,000</u>
Promissory notes:		
7-9 ³ / ₄ % matured over periods to 1975	—	938,000
1 ¹ / ₂ % in excess of prime due 1976	214,000	428,000
	<u>214,000</u>	<u>1,366,000</u>
Finance contracts	<u>9,000</u>	<u>40,000</u>
	<u>5,399,000</u>	<u>7,069,000</u>
Less due within one year	<u>1,228,000</u>	<u>1,665,000</u>
	<u>\$ 4,171,000</u>	<u>\$ 5,404,000</u>

All long-term debt is secured either by the pledge of specific assets or by a general lien on the assets of individual companies.

5. Capital stock

By an amendment to the Company's Memorandum of Association dated May 20, 1974 the authorized common stock was changed from 10,000,000 shares of par value of \$0.10 each to 10,000,000 shares of no par value and increased to 25,000,000 shares. As of that date 3,077,362 shares were issued and outstanding.

Authorized

Preferred stock—	1,000,000 shares with a par value of \$1 each, fully participating, non-redeemable, voting on the basis of ten votes for each share held and convertible on the basis of one common share for one preferred share at any time.
Common stock—	25,000,000 shares with no par value.

Issued and fully paid

	Shares	
Preferred stock	500,000	\$ 500,000
Common stock	3,777,362	11,922,000
		<u>\$12,422,000</u>

Pursuant to the provisions of the stock purchase plan as confirmed by the shareholders on April 3, 1974, whereby shares may be purchased on the open market or issued from treasury, 100,000 common shares have been reserved in treasury for issuance to employees of the Company.

During the year options to purchase 30,000 shares were granted and exercised by certain employees. In connection therewith funds were advanced to the trustee of the plan for the purchase of these shares on the open market. Payment for these shares is to be made over a period of five years. At December 31, 1975 the trustee held 40,000 shares as collateral for the unpaid balances remaining on all shares purchased to date.

6. Extraordinary items

	1975	1974
Reduction in income taxes resulting from the application of prior years' losses against current income	\$ —	\$ 59,000
Gain on disposal of land	—	53,000
	—	112,000
Less: Reduction in equity resulting from an issue of shares to minority interests in a subsidiary company	(18,000)	(21,000)
	<u>\$ (18,000)</u>	<u>\$ 91,000</u>

7. Contingent liability

Three subsidiary companies are contingently liable as guarantors of 87 customers' outstanding finance contracts in the aggregate amount of \$3,178,000, none of which exceeds \$361,000.

8. Contractual liability

Certain premises are leased under long-term contracts requiring annual rental payments of \$23,000 which mature in 1983 and \$110,000 which mature in 1989.

A subsidiary company has a contingent asset in respect of an option to acquire a property presently leased at the termination of the lease in 1989, which option price is less than the estimated present market value of the property.

9. Remuneration of directors and officers

Remuneration paid to directors and officers during the year ended December 31, 1975 amounted to \$183,000 (1974 — \$165,000), which includes \$30,000 (1974 — \$30,000) paid by a subsidiary company.

10. Anti-Inflation Legislation

The Company and its subsidiaries are subject to the Federal Government's Anti-Inflation Legislation, which became effective October 14, 1975. This legislation limits increases in prices, profits, compensation and dividends. Management is of the opinion, based on preliminary calculations, that the companies have no significant liabilities as a result of the Anti-Inflation Legislation.

AUDITORS' REPORT

The Shareholders,
The Resource Service Group Ltd.

We have examined the consolidated balance sheet of The Resource Service Group Ltd. and its subsidiary companies as at December 31, 1975 and the statements of consolidated income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to the subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec.
February 27, 1976.

Touche Ross & Co.
Chartered Accountants.

THE RESOURCE SERVICE GROUP LTD.

100%

70%

100%

97%

30%

GORMAN'S CONECO

Gorman's Ltd.
Coneco Equipment Ltd.
Coneco Machinery Ltd.

Edmonton
Calgary
Grande Prairie
Fort St. John
Fort McMurray

CONSOLIDATED BEAR INDUSTRIES

Bear Tools Co. Ltd.

Edmonton
Calgary
Fort St. John
Medicine Hat
Dartmouth
Casper, Wyo.

WESCAN RENDELL

Wescan Mining Trucks
& Equipment Ltd.
Wescan Rendell
Equipment Ltd.
Wescan Rendell
Equipment Sales Ltd.

Vancouver
Prince George
Kamloops
Nanaimo
Cranbrook
Burns Lake

MSN INDUSTRIES

Mussens Equipment Ltd.
Mussens Service (1969)
Ltd.
Colborne Acceptance Ltd.
Ontario Equipment Ltd.
Ontario Equipment
Northern Ltd.
Just Equipment Ltd.
Colborne Equipment Co. Ltd.

Montreal Toronto
Quebec City Ottawa
Sept Iles Labrador
Matagami
James Bay

OKANAGAN HELICOPTERS

Universal Helicopters Ltd.
Canadian Helicopters Ltd.
Haida Helicopters Ltd.
Lac St. Jean Aviation Ltd.
Okanagan Helicopters Ltd.
Dominion Pegasus Ltd.

British Columbia
Alberta
Quebec
Ontario
Newfoundland
Nova Scotia
Northwest Territories
West Africa
S.E. Asia

